University of Connecticut
Office of the Vice President and Chief Financial Officer

Richard D. Gray
VP & CFO

Testimony

Of

Richard D. Gray

Vice-President and Chief Financial Officer
University of Connecticut

Appropriations Public Hearing
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My name is Richard Gray. I am the Vice President and Chief Financial Officer for the University of Connecticut. Thank you for allowing me to submit written testimony on the recently proposed Deficit Mitigation Plan for Fiscal Year 2010.

While we understand the dire financial situation with which you are grappling as you try to close the FY 10 deficit, we did want to share with you the University's concerns about the plan and give you a sense of how it will impact the Health Center, our Storrs and Regional campuses, and our stem cell research activities.

Health Center

The UConn Health Center is controlling expenses while maintaining the quality our students, patients and the State have come to expect from our institution. The Health Center receives 22.6% of its budget from the state. The remaining 77.4% is generated from clinical revenues, research grants, tuition & fees, and philanthropy. These non-state sources are also challenged during these tough economic times.

Since, 2000, the UConn Health Center, including John Dempsey Hospital (JDH), has undertaken a number of cost reductions and revenue enhancements totaling over $100 million. The two most recent efforts in 2009 and 2010 will result in cost reductions and revenue enhancements of over $14 million. Some of these initiatives were extremely difficult for our employees and the organization. We were faced with and implemented workforce reductions that will yield approximately $2 million annually. In process are a number of technology initiatives that will result in improved clinical and financial processes (i.e. billing and electronic health record). In April 2009, JDH qualified for the first time for 340 B drug pricing for its outpatient pharmaceutical purchases. This will save approximately $2 million over the biennium.

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As a result of the state's financial support and our ongoing aggressive efforts in expense management, revenue enhancement, increased productivity and clinical growth, I am pleased to inform you that we will finish this fiscal year on budget, which is breakeven (assuming no budget cuts).

JDH is a 'Disproportionate Share Hospital" and provides inpatient and outpatient services to a significant number of Medicaid eligible recipients (Husky B or Medicaid Managed Care, Husky A or Medicaid and SAGA). JDH is among the top 4 hospitals in the state for Medicaid inpatient days as a percentage of total inpatient days. We are the regional dental emergency room service, the largest single provider of dental care to the state's under and uninsured, and the mainstay of dental services to adult citizens with developmental disabilities.

We are committed to improving access to quality healthcare and providing quality health care to the state's most vulnerable populations. In order to continue to do so, however, it is important that we, along with other hospitals in the state, be compensated appropriately for the care we provide.

We certainly appreciate the difficult task facing you and Governor Rell in addressing the state's budget deficit. We oppose the payment reductions to hospitals and imposition of a tax on hospital revenues included in the Governor's deficit mitigation plan. The overall impact of the changes the Governor has proposed for hospitals totals $219 million.

The plan includes cuts to Medicaid rates, cuts to Urban DSH funds, restrictions in the definition of medical necessity, and the imposition of co-payments under Medicaid, at an overall cost of $62 million to Connecticut's hospitals for FY 2010-2011. The elimination of non-emergency dental services, at an overall cost of $8 million to Connecticut's hospitals, impacts JDH by approximately $4.9 million. JDH is by far the largest hospital based provider of dental services.

In addition, while the Administration has not taken the steps necessary to implement the SAGA waiver as directed by the legislature, the biennial budget passed in September 2009 provided the funding needed to raise hospital SAGA rates up to Medicaid effective January 1, 2010. The funds necessary to raise hospital SAGA rates to Medicaid have been appropriated and will be matched with or without a waiver. The impact on JDH over the eighteen month period is $2.9 million.

For JDH, the proposed reductions will mean a cut of $10.8 million, creating a budget shortfall. In the face of the prolonged recession, as unemployment has soared and record numbers of people have found themselves uninsured or on Medicaid, we continue to provide care to all 24 hours a day, 7 days a week, regardless of patients' ability to pay.

Storrs and Regional Campuses

In terms of the Storrs and Regional Campuses, UConn is deeply concerned that the proposed transfer of responsibility for debt service payments will impact the continued financial viability of the University and its ability to provide the highest quality education it has promised to its more than 29,000 students.

The proposed transfers would greatly compound the financial challenges facing the University. In 1991, state support made up 50% of the University budget, but this support has steadily declined

since then to a mere 33% today. In fact, significant reductions have understandably occurred since 2008. Due to reductions and rescissions, the University's state appropriation was cut by $19.6 million in FY 09 and by $3.2 million in FY 10 for a total of $22.8 million over the two years (including fringe benefits). In addition, the enacted FY 10-11 budget requires UConn to transfer $3 million in FY10 and $5 million in FY11 from our reserves. We have tried to absorb these cuts without affecting the quality of our academic and student services, but have had only limited success in this endeavor.

Looking forward to FY 11, we know that only level funding will likely be possible, yet we are currently obligated to collective bargaining agreements which require us to provide our faculty and staff with a 5% wage increase for a total salary cost of $13.3 million.

Please know that the University has done its best to control costs. We have restricted hiring, implemented union and management wage freezes and furloughs, limited purchasing, and reduced other expenses including energy. UConn has created the Costs, Operations, Revenue Efficiencies (CORE) Task Force to indentify savings. The Task Force continues to meet and look for additional ways to control costs and find efficiencies.

OPM has justified this transfer of responsibility by asserting that UConn was able to retain savings associated with the Retirement Incentive Program (RIP). **However, these savings have already been realized by the enacted biennial budget which transfers $8 million from our reserves to the state General Fund which is the amount UConn estimated our RIP savings at both UCHC and the University to be.**

Since the state pays debt service for the Connecticut State University System and the Connecticut Community Colleges, we are wondering why UConn is the only constituent unit singled out in the Deficit Mitigation Plan to be required to assume this state debt service responsibility? Historically, the budgets of UConn, CSU and CCCs have been treated in an equitable manner. This clear departure from past practice is troubling to the University community.

It is important to point out that this transfer of state debt service responsibility is unprecedented. UConn and CSU have always paid debt service on auxillary service buildings -- like dormatories and dining halls. In the current fiscal year, for example, the University is making debt payments of $20.8 million for special revenue bonds, self-liquidating bonds, installment loans and our cogeneration plant lease. State colleges and universities have never paid for debt service on state bonds which are used to finance academic and academic support buildings and this would be an additional expense for which the University has not budgeted.

If I can be permitted to put my concerns in historical context, the bill proposes a "transfer" of responsibility for debt service payments of a portion of the outstanding bonds issued under the UCONN 2000 program to the University. This is not a new proposal in that a similar transfer of payment responsibility was propsed during budget negotiations last year. This brought an immediate response from bond counsel who stated that the State could not transfer the liability on existing bonds without violating the representations and covenants contained in the Public Offering Statements and the bond documents under which the bonds were sold publicly.

When the same proposal was made in the most recent Deficit Mitigation Plan, we immediately contacted the Office of the State Treasurer which has jurisdiction over UCONN 2000 bonds and expressed the same concerns as was the case during the last legislative session.

The State Treasurer's office contacted the Office of Policy and Management and received assurances that no bond covenants would be violated because there would be no reduction in the debt service to the Office of the State Treasurer's appropriation that pays the principal and interest on the bonds.

The Deficit Mitigation Plan, if enacted, would require the transfer of an additional $5M in fund balances in the current fiscal year and $10 million in FY11 for a total transfer of $15 million above the $8 million already in the approved biennial budget. This would reduce the assets available to operate the University by a total of $23 million over the next two fiscal years. Given all of the other cuts the University has had to absorb in the last two years, we urge the Committee to oppose this transfer of debt service responsibility to the University.

University-Wide: Stem Cell Research Activities

Finally, the Deficit Mitigation Plan sweeps $5 million from the Stem Cell Research Fund.

The success of this program has already been proven. Within just 18 months of receiving state stem cell funding, UConn researchers have created two new human embryonic stem cell lines. Only a handful of institutions throughout the country have this capacity. A recent invention was disclosed by stem cell researchers at UCHC for cartilage replacement. Two Federal grants have been obtained through collaboration between the TIP and UCHC stem cell core lab to provide access to unique equipment that will further research for both TIP firms as well as faculty researchers. This specialized equipment, aimed at advancing the speed and efficiency of this research, would be otherwise unattainable for fledgling start ups. Thus, Connecticut has gained a national and international reputation in human embryonic stem cell research. This work will further evolve and provide hope to mankind to overcome major diseases such as Parkinson's, autism, cancer, and diabetes. The stem cell grant program has created and maintained employment for 40 full-time equivalents in 32 labs at the University. Please see the attached Results-Based Accountability Report Card that has more information on the tremendous strides the initiative has made.

The University's research progress will be set back if funding for this program is reduced. The impact of cutting Stem Cell Research funding includes:

- loss of competitiveness for NIH funding
- possible job loss of skilled personnel, especially to neighboring states that are maintaining their stem cell funding programs
- loss of natural/international recognition
- less competitive to recruit well funded investigators to come to UConn

- collaboration with other stem cell funded states (Stem Cell Alliance)

- lack of pharmaceutical opportunities that could create jobs

Please be aware that the University of Connecticut has committed resources, equipment and space to establish its world-class human embryonic stem cell research program. These investments include:

- A $52 million 117,000 square foot research building in Farmington will open in July 2010 and will be home to the Stem Cell Institute and many of our top scientists. About one-half of this space will house the stem cell program with the remainder dedicated to state-of-the-art imaging and computing technologies and the Biotechnology Incubator.

- Over $1 million to establish and equip the human embryonic stem cell (hESC) core facility. This core facility provides training, hESC lines and other services to researchers from all over the State of Connecticut. During the past year, our hESC core facility produced the first four human embryonic stem cell lines in the State of Connecticut. This achievement is a testimony to our core's high level of expertise and places both the State and the University of Connecticut at the forefront of international stem cell research.

- $1.1 million to purchase state-of-the-art equipment to purify stem cells and to read their genome using a state-of-the-art Illumina Genome Analyzer.

- The allocation of 30,000 sq ft of wet laboratory space to stem cell research on the Farmington campus alone.

As we move stem cell research from bench research to therapeutic applications, it is imperative that the stem cell initiative be continued at its current level. Despite difficult economies, neighboring states including Maryland and New York recognize the importance of maintaining their stem cell research capacity and are moving forward with their FY 10 funding cycles. We believe Connecticut should do the same.

In closing, thank you for the opportunity to submit testimony and for your continued support of the University of Connecticut.

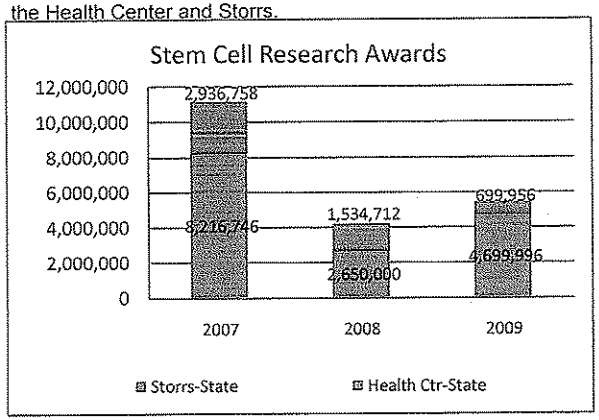
Program Report Card: University of Connecticut Stem Cell Institute (UCSCI)

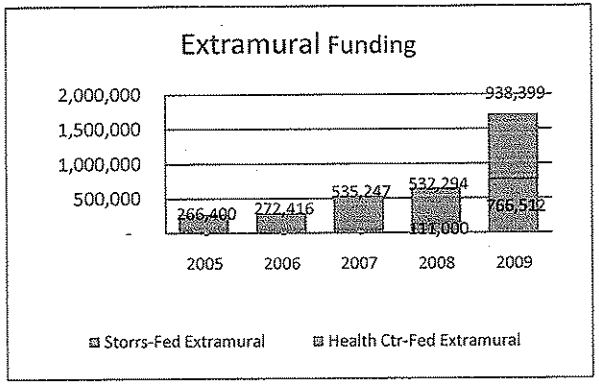
Quality of Life Result: All Connecticut residents live free of disease and of the lingering effects of bodily injury.

Contribution to Result: Building on its existing research strengths, USCI (stem cell program) contributes to this end result because it seeks to develop medicine and therapies to cure and eradicate disease and repair injured tissues.

Partners: State of Connecticut, Department of Public Health, Connecticut Innovations, NIH, Wesleyan University, Yale University

Performance Measure 1: The amount of awards received by the Health Center and Storrs.



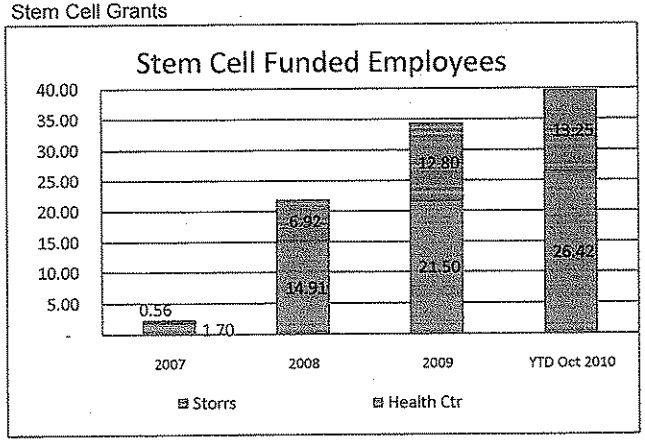


Story behind the baseline: For the first three rounds of competition for Connecticut stem cell funding, UCSCI investigators have successfully competed for $20.8 million of support (47 projects awarded out of 147 applications submitted). This amount leads all state institutions all other funded entities. The majority of the UCSCI investigators received funding from the Connecticut State Stem Cell Fund. Total Stem Cell funding available in 2007 was $20M and $10M was available for 2008 and 2009.

Proposed actions to turn the curve:

Increase Federal funding now that Pres. Obama removed the restrictions set by Pres. Bush on federal funding for research on human embryonic stem cell lines derived after Aug. 2001. However, all the lines must be first registered at the NIH if the informed consent form for the embryo donation to derive the lines ethically meets requirements set by the NIH.

Performance Measure 2: Total Full Time Equivalents funded on Stem Cell Grants

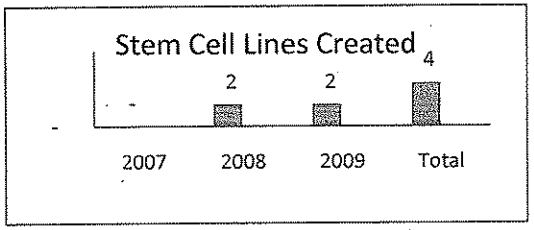


Story behind the baseline: There are thirty-two laboratories supported by this initiative with a wide range of research projects. There are currently forty-five publications. A major component of Stem Cell research will be housed, in a new $52 million, Cell and Genome Sciences building at the Uconn Health Center in Farmington, equipped with the latest technologies for studying stem cells and their genomes. This site will bring together scientists working in stem cells into a cross-disciplinary and collaborative setting. The Cell and Genome Sciences Building will consolidate equipment and staffing resources to coordinate research within and outside the University. Companies which have signed on with Uconn are DRG (Doctors Research Group) - working to utilize stem cells in bone cement products and Crytotooth - current product offering is storage and growth of stem cells extracted from tooth pulp for future therapeutics uses, but came to UCONN specifically to begin pursing research in areas associated with degenerative diseases.

Proposed actions to turn the curve:

Maintain or increase number of employees funded by Stem Cell Research funds which in turn will save jobs in the state of Connecticut or create more jobs.

Performance Measure 3: Stem Cell Lines Created



Story behind the baseline: Cells in the body are differentiated to perform specific functions. Once formed these cells cannot change function to become a different cell type (i.e., a muscle cell cannot later become a bone cell). In contrast, a stem cell is an undifferentiated cell that has the potential to become any cell type present in the body. However, when the stem cell differentiates into a specific cell, a muscle cell for example, it can no longer differentiate into other cell types. A stem cell line is a specially created population of undifferentiated cells, that can continuously renew themselves and, given proper conditions, are able to become other cell types with specific functions like muscles, neurons, and blood cells.These functional cells can be implanted to the body to replace damaged or diseased muscles, neurons or blood cells. Created stem cell lines can be endlessly expanded, frozen, thawed, and distributed. So they can be available, theoretically, forever. The techniques to produce human embryonic stem cell lines from donated embryos are highly specialized and their derivation has been accomplished successfully in less than ten academic institutions in the United States, including the Stem Cell Core at the University of Connecticut. The National Institutes of Health soon plans to expand the number of human embryonic stem cell lines that qualify for federal funding to 91. Of these, two will come to the State of Connecticut. These two lines, produced in the University of Connecticut Stem Cell Core, will then be available to researchers across the United States and throughout the world.

Proposed actions to turn the curve:

Currently most stem cell lines have been derived and cultured in contact with animal products. We need to derive new stem cell lines under animal-free conditions, so they are biologically safe when used to treat patients. This is a goal of the stem cell core to create these lines.